



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
*Director*

## MINUTES REGULAR MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

**Friday, September 18, 2009**  
**1:00 p.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 1:00 p.m., MST.

The meeting was not teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### **1. Call to Order; Roll Call; Opening Remarks**

Present: Mr. David Byers, Chair  
Mr. Tom Connelly, Vice-chair  
Mr. Chris Harris – via teleconference  
Mr. Jim McLaughlin  
Dr. Keith Meredith  
Mr. Michael Townsend  
Mr. Larry Trachtenberg – via teleconference  
Mr. Steve Zeman

Absent: Mr. Jaime Gutierrez

A quorum was present for the purpose of conducting business.

### **2. Approval of the Minutes of the August 21, 2009 Regular Session of the ASRS Board**

**Motion:** Mr. Steve Zeman moved to approve the minutes of the August 21, 2009, Regular Session of the ASRS Board.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

### **3. Presentation, Discussion and Appropriate Action Regarding Forecasted Cash Flows and Liquidity of the ASRS**

Mr. Paul Matson, Director, addressed the Board regarding ASRS forecasted cash flows and liquidity management. In late calendar year 2008 - early 2009, the Director and CIO became moderately concerned regarding how ASRS' Cash Flow and investment liquidity position might be impacted by one or more of the following possible occurrences: 1) a continuation or prolonging of effects of capital market dislocations and illiquidity 2) volatility of future contributions, 3) unanticipated capital

call drawdowns on private markets investments (i.e., real estate, private equity, and opportunistic asset class investments), 4) increased ASRS membership retirements, 5) potential government downsizing, and 6) state hiring freeze.

In early January 2009, the Director and CIO postponed the approval of new commitments to private investments until March 31, 2009, and subsequently extended the postponement to June 30, 2009. Notification of each postponement was made to the Investment Committee and the full Board.

Mr. Matson presented an ASRS actual and projected analysis for calendar years 2008, 2009, and 2010. He noted the ASRS' liquidity position (relatively liquid investments) continues to be reasonably favorable but will continue to be monitored.

#### **4. Presentation, Discussion and Appropriate Action Regarding ASRS Risk Assessment, Risk Control Strategies and Internal Audit Plan for Fiscal Years Ending 2010 and 2011**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, addressed the Board regarding the risk assessment and control strategies that will be used to manage administrative risks for the period beginning July 2009 and ending June 2011. Risk profiles were created for 43 functions and 172 possible risk events were evaluated. Mr. Guarino outlined some of the risks and control strategies. He stated the control strategies were discussed with management and the Operations Committee.

Mr. Bernard Glick, Chief Internal Auditor, addressed the Board regarding the Internal Audit Plan for fiscal years ending 2008 and 2009 by pointing out noteworthy highlights.

**Motion:** Dr. Keith Meredith moved to approve the Biennial Risk Assessment, its risk control strategies and the Internal Audit Biennial Workplan as presented to the Board.

Mr. Tom Connelly seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

#### **5. Presentation, Discussion and Appropriate Action Regarding the ASRS Actuarial Audit**

Mr. Matson addressed the Board regarding the actuarial audit. Every five years the ASRS conducts an actuarial audit. The most recent audit has been completed by Cavanaugh Macdonald Consulting, LLC (CM).

Mr. John Garrett, Principal and Consulting Actuary, and Mr. Eric Gary, Senior Actuary, CM, presented their Actuarial Audit to the Board. They stated they generally found the actuarial valuations performed by the ASRS consulting actuary, Buck Consultants, to be reasonable and accurate. They presented their recommendations and Mr. Charles Chittenden, Buck Consultants, responded.

Mr. Matson noted he worked with Buck Consultants to develop a pro forma analysis of the implications of the most significant methods and assumptions to be considered for possible modification, and he presented the analysis to the Board. Mr. Matson said the pro forma analysis summary tables would be considered with Buck's valuation reports to the Board in November, along with the impact of implementing CM's recommendations.

The Board recessed at 2:45 p.m.

The Board reconvened to order at 2:59 p.m.

## **6. Presentation, Discussion and Appropriate Action Regarding the Structure, Administration, Investments, and Actuarial Aspects of the ASRS**

Mr. Byers introduced the topic. The intent of this agenda item was to open for general discussion the areas of the structure, administration, investments, and actuarial aspects of the ASRS. Mr. Byers stated agenda item 6a. would be discussed first.

### **6a. ASRS Internal Revenue Service (IRS) Qualification with Respect to Required Minimum Distributions**

Mr. Byers introduced the topic. Mr. Zeman noted ASRS members who are no longer actively employed in a position covered by the plan must decide by age 70 ½ whether they want to receive a pension or take a refund. He was concerned about the ASRS' responsibility regarding the age 70 ½ disbursement.

The ASRS currently mails a letter to members who are over the age of 65 and have not contributed to the ASRS for six months or more, notifying them they have funds on account and are eligible for benefits. The letter also informs members of the federal requirement to take a minimum distribution at age 70½. The ASRS continues to send an annual member statement to those members who are over the age of 65 but have not yet made an election. Members over the age of 70 are sent new correspondence, informing them of federal requirements to take a benefit.

Once the member reaches age 73½, the accounts for members who have not responded or cannot be located will be marked as unclaimed property and the liabilities associated with payment of these monies will be removed. Unclaimed property accounts will continue to remain on file with the ASRS until such time a member, a beneficiary, or apparent owner comes forward to claim a benefit.

Mr. Matson explained that the ASRS contacted Mr. Charles Whetstine, attorney, to ascertain ASRS compliance with IRS regulations. Mr. Matson asked if the ASRS should be taking other actions in addition to current procedures. Mr. Whetstine stated the ASRS actions are compliant with IRS regulations. He provided information and answered questions related to the topic.

Prior to discussing the next agenda item, Mr. Byers said he felt the minimum monthly pension amount should be raised from the current amount of \$20.00 to a larger amount. Mr. Thomas I. McClory, Assistant Attorney General, noted the current amount has been in effect since at least 1995. Statutory changes may need to be made to enact the suggested change.

After that topic concluded, Mr. Zeman suggested use of a suppression code regarding mailing lists, when a refund payment has been made to a member, and when a member is deceased, to avoid future mailings to said members. The ASRS already performs a similar activity when a refund payment occurs.

### **6b. Presentation, Discussion and Appropriate Action Regarding the Structure, Administration, Investments, and Actuarial Aspects of the ASRS – Fees for Service**

Mr. Byers introduced the topic, stating some pension funds charge fees for some services. A discussion ensued regarding the possibility of recovering some administrative costs by charging fees for some services. Some Board members favored this idea and some did not. No motion was made. Mr. McClory pointed out statutory changes would need to be made to enact most of the possible suggestions.

**6c. Presentation, Discussion and Appropriate Action Regarding the Structure, Administration, Investments, and Actuarial Aspects of the ASRS – Investment Markets: Conditions, Opportunities, Returns, Risks, and Allocations**

Mr. Byers introduced the topic and a general discussion was held on the current market and possible investment opportunities.

**6d. Presentation, Discussion and Appropriate Action Regarding the Structure, Administration, Investments, and Actuarial Aspects of the ASRS – Design and Benefit Structure of Benefit Programs: Defined Benefit Plan, Defined Contribution System, Retiree Health Insurance Program and Supplement, Long Term Disability Program, and other Benefits Programs**

Mr. Byers introduced the topic and a general discussion was held.

**6e. Presentation, Discussion and Appropriate Action Regarding the Structure, Administration, Investments, and Actuarial Aspects of the ASRS – Governance**

Mr. Byers proposed meeting with trustees of other pension funds to exchange ideas. Some Board members expressed interest.

Mr. Steve Zeman, Vice-chair, External Affairs Committee (EAC), said the next EAC meeting will take place October 2, 2009 at which legislation for 2010 will be discussed.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place November 5, at which strategic 3-year initiatives will be discussed.

Mr. Tom Connelly, Chair, Investment Committee (IC), stated the IC has scheduled a meeting for October 13, at which the final Asset Allocation Study will be discussed.

**7. Director's Report**

Mr. Matson presented the report to the Board.

**8. Call to the Public**

No members addressed the Board.

**9. The next ASRS Regular Board meeting is scheduled for Friday, October 16, 2009, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

**10. Adjournment of the ASRS Board**

Mr. Byers adjourned the Board meeting at 4:48 p.m.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Hanneman  
Board Secretary

Date

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Paul Matson  
Director

Date